House Policy Committee **Chairman John Shadegg**

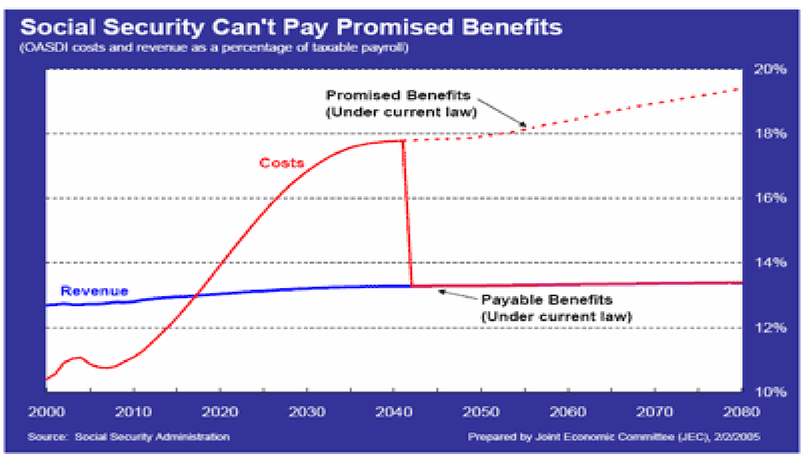
SOLVENCY AND GENERATIONAL FAIRNESS

Social Security Faces Two Distinct Challenges

SOLVENCY

The current Social Security system is unsustainable. The Social Security Trustees Report of March 2005 once again highlighted the future shortfall:

> "Annual costs will begin to exceed tax income in 2017 for the combined Old Age Survivors and Disability Insurance Trust Funds, which are projected to become insolvent (i.e. unable to pay scheduled benefits in full on a timely basis) when assets are exhausted in 2041 under the long-range intermediate assumptions."



No matter what we do to fix Social Security, the sooner we do it, the better. Timely reforms will minimize the effects of any painful choices, and maximize the ability of younger Americans to plan for their future retirements.

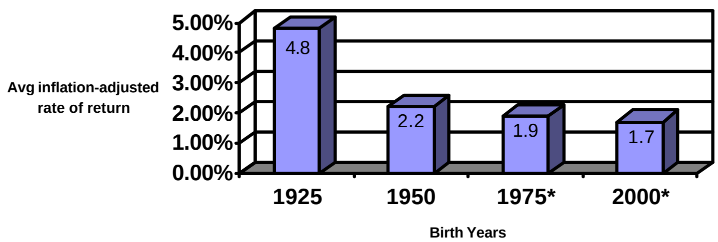
Unlike the "Band-Aid" reform efforts of the past – which have only patched up the program in the short term – now is the time to fix Social Security permanently. The standard for any modification to Social Security should be "sustainable solvency," - that is, no further changes are needed in order for Social Security to continue to provide retirement benefits in perpetuity.

GENERATIONAL FAIRNESS

Social Security is a pay-as-you-go system. The taxes collected today from current workers go to pay today's beneficiaries. Now, the largest generation in American history – the Baby Boom - is poised retire and begin drawing benefits. Plus, the generations that followed the Baby Boom have seen far lower birth rates.

Simply put, we face a future with fewer and fewer workers supporting more and more retirees. As the number of workers supporting each retiree has dwindled over time, we have already seen a drop in the rates of return on Social Security contributions.

Social Security Rates of Return Falling with Each Generation



People who retired in 1990 are earning – on average – a return of 4.8 percent. Those who will retire in 2015 will earn an average rate of return of slightly less than half of that – only 2.3 percent. Even worse, today's children are likely to see rates of return of less than 1.8 percent when they retire.

We would all agree that our children should get as good a deal on Social Security as their grandparents did. This concept is called generational fairness. But how do we achieve that goal? We can achieve generational fairness by establishing personal retirement accounts.

Personal accounts ensure generational fairness by enabling future retirees to earn rates of return comparable to those of current retirees - and much better than they are likely to see under the current system.

THE STANDARD OF REFORM FOR SOCIAL SECURITY

Because the ultimate test of a moral society is the kind of world it leaves to children, the nation's leaders have an obligation to address this issue now. Meeting that obligation in Social Security reform means leaving it in a state of sustainable solvency and providing future generations the tools with which to make the most of their retirements.

For additional information and a PowerPoint presentation, visit http://policy.house.gov .